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## BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commission

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

Arizona Corporation Commission

DOCKETED

MAR 19 2014

DOCKETED BY

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IN THE MATTER OF THE APPLICATION  
OF SAHUARITA WATER COMPANY, LLC  
FOR A RATE INCREASE.

DOCKET NO. W-03718A-09-0359

DECISION NO. 74389ORDER

Open Meeting  
March 11/ 12, 2014  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Sahuarita Water Company, LLC ("Sahuarita" or "Company") is a Class B public service corporation. The Company is headquartered in Sahuarita, Arizona, and its service area is limited to Pinal County, Arizona. In the test year, ending December 31, 2008, the Company served an average of 4,524 water customers.

2. The Company has filed a motion as described below arising from the Arizona Corporation Commission's ("Commission") policy change regarding income taxes.

Background

3. On February 11, 2011, the Commission issued Decision No. 72177, which established the current rates for Sahuarita. This decision amended the rates that had been set for Sahuarita in Decision No. 59431, issued December 20, 1995. Decision No. 72177 also provided that Sahuarita could seek an allowance for income taxes generated as a result of its operations if

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1 the Commission changed its policy regarding the treatment of income taxes for subchapter S  
2 corporations and LLCs.

3 4. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy  
4 allowing every utility entity, other than subchapter C corporations and tax-exempt entities, to seek  
5 to include in its cost of service an income tax allowance based on the lower of comparable  
6 subchapter C corporate income tax expense or the combined personal income tax obligation  
7 created by the distribution of the utility's profits.

8 5. On August 19, 2013, the Company filed a motion to amend Decision No. 72177  
9 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full  
10 schedules that appropriately fulfill the new income tax policy requirements and the resulting  
11 recognition of an income tax allowance. Staff has confirmed that the amount that the Company is  
12 seeking to collect for income taxes is less than it would be if the Company had elected to be taxed  
13 as a stand-alone C corporation. The increase to the revenue requirement is \$178,328, or an  
14 increase of 8.05 percent. Staff concurs with this amount as it complies with the Commission's  
15 new policy and they will therefore result in just and reasonable rates, based on this policy.

16 6. In its filing, the Company proposes no change to its fair value rate base, which is  
17 \$8,805,561. Adopting the increase proposed by the Company would increase the Company's  
18 revenue requirements to \$582,666. The fair value rate of return remains at 9.20%.

19 7. Decision No. 72177, authorizing Sahuarita's present rates, was issued on February  
20 11, 2011, and it was based on a 2008 test year. Staff recommends that the Company be ordered to  
21 file a full rate case application no later than June 30, 2015, using a 2014 calendar year test year.

22 **Notice**

23 8. Staff asked the Company to provide the notice attached as Attachment 1 to the Staff  
24 Memorandum to all of its customers and all parties to this case by February 27, 2014.

25 **Rate Design**

26 9. The Company has proposed a rate design that includes both an increase to the  
27 monthly minimum charge and an increase to the commodity charge.

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1           10. Staff concurs with the Company's proposed rate design. For informational  
2 purposes, the typical bill impact analysis for a 5/8-inch meter residential customer using the  
3 average of 4,524 gallons per month is as follows:

4                               Current bill: \$31.48  
5                               Proposed bill: \$33.74  
6                               Increase: \$2.26 or 7.20%.

6           **Staff Recommendations**

7           11. Staff recommends approval of the rate increase requested by the Company in the  
8 amounts of \$178,328.

9           12. Staff further recommends approval of the associated rate design proposed by the  
10 Company in its application.

11           13. Staff further recommends that the Company be ordered to file a full rate case  
12 application by no later than June 30, 2015, using a 2014 calendar year test year.

13                               **CONCLUSIONS OF LAW**

14           1. Sahuarita Water Company, LLC is a public service corporation within the meaning  
15 of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 252.

16           2. The Commission has jurisdiction over the Company and over the subject matter of  
17 the application.

18           3. Notice of the proceeding and an opportunity to be heard has been afforded in the  
19 manner prescribed by law.

20           4. For the purposes of evaluating this application, the information set forth in Finding  
21 of Fact No. 6 serves as appropriate fair value information for the Commission's consideration.

22           5. The Commission may determine appropriate ratemaking classifications pursuant to  
23 Article XV, Section 3 of the Arizona Constitution, and the rates proposed herein are just and  
24 reasonable.

25           6. Decision No. 72177 is hereby modified to provide for recovery of income taxes  
26 through rates.

27           7. Staff's recommendations are reasonable and hereby approved.

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ORDER

IT IS THEREFORE ORDERED that Decision No. 72177 is hereby modified to permit Sahuarita Water Company, LLC to recover income taxes as requested in its August 19, 2013 motion.

IT IS FURTHER ORDERED that the recommendations of Staff discussed in Findings of Fact 11 through 13 are reasonable and are hereby adopted.

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IT IS FURTHER ORDERED that Sahuarita Water Company, LLC is hereby authorized and directed to file with the Commission, on or before April 1, 2014, revised schedules of rates and charges consistent with the discussion herein.

IT IS FURTHER ORDERED that the new rates and charges approved herein shall become effective April 1, 2014.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

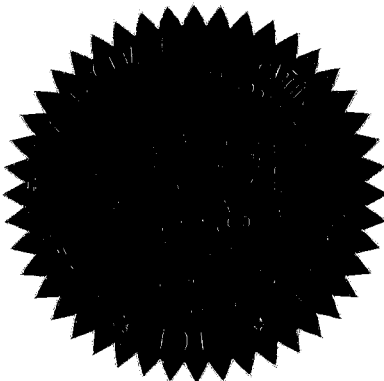
  
CHAIRMAN

  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of March, 2014.

  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:JLK:lhmfJFW

1 SERVICE LIST for: Sahuarita Water Company, LLC  
2 DOCKET NO. W-03718A-09-0359

3 Mr. Robert Metli  
4 Munger Chadwick, P.L.C.  
5 2398 E. Camelback Rd., Ste. 240  
6 Phoenix, Arizona 85016

7 Arizona Reporting Service, Inc.  
8 2200 N. Central Ave., S. 502  
9 Phoenix, Arizona 85004

10 Mr. Lawrence V. Robertson, Jr.  
11 Post Office Box 1448  
12 Tubac, Arizona 85646

13 Mr. Steven M. Olea  
14 Director, Utilities Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 Ms. Janice M. Alward  
19 Chief Counsel, Legal Division  
20 Arizona Corporation Commission  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007  
23  
24  
25  
26  
27  
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